ZIMCODD

ZIMBABWE COALITION ON DEBT & DEVELOPMENT

Introduction

On January 31, 2024, the Zimbabwe Coalition on Debt and Development (ZIMCODD) convened an online social media (X-space) engagement with citizens, the private sector, and policymakers. This comes after increased company closures and downsizing announcements despite the 2025 national budget projecting a positive trajectory. In contrast, the obtaining situation depicts a bleak macroeconomic outlook, as a panel of economic experts echoed during the X-space. Most businesses affected are major wholesalers and retailers because these are forced to accept local currency (ZiG) transactions at the official interbank rate. Yet, the official rate is overvalued compared to alternative rates offered in the parallel markets, with the parallel market exchange premium[1] currently range between 25% and 30%. As a result, the informal sector primarily transacts in foreign currency, creating a disadvantage over its formal counterpart, which is forced to use overvalued official rates.

Recognizing the foregoing, suppliers now directly supply goods and services to the cash-based informal sector while demanding cash upfront or forward-pricing arrangements for ZiG transactions with the formal sector. Consequently, substantial exchange rate-linked losses, coupled with chronic inflation, electricity shortages, expensive fuel, high interest rates, liquidity shortages, and a huge tax burden, accelerate operational costs and force formal businesses to shut down. However, other X-space panelists also disclosed that while it is true that the informal sector contributes less to the fiscus and uses unofficial rates, it also faces several challenges that are inhibiting its operation and growth potential. For instance, authorities have no respect or recognition of the vitality of the informal sector, as they are criminalizing informal activities like vending and artisanal mining. Again, despite being organized, the informal sector is excluded from the economic decision-making table, and there is a lack of requisite infrastructure, technical support services, and access to market and credit. Yet, millions of disadvantaged groups, particularly women, youths, and people with disabilities (PWDs), earn a living in the informal sector. The forced formalization strategies being pursued by authorities will likely backfire politically, socially, and economically.

Be that as it may, there was an overall consensus that the ongoing formal business closures exert severe social repercussions. Thousands of families are losing jobs when the economy is reeling

[1] This is the percentage difference between official and parallel market rates. For currency stability to hold, conventional wisdom demands these parallel market premia to range between 10-20%.

from an El-Nino-induced drought and its severe humanitarian impacts. Also, the loss of income would mean that many households cannot afford adequate food supplies, send children to school, or maintain their family medical aid schemes. In other words, if unabated, this economic trajectory will exacerbate inequality and plunge many people into poverty. The following were the key policy propositions from the X-space discussion.

Policy Recommendations

- The central bank, through its 2025 Monetary Policy Statement (MPS), must abolish command exchange rate policies, as these are indirect price controls that cause pricing distortions and sustain chronic ZiG inflation. The official interbank market must be fully floated and operate on a proper willing-buyer, willing-seller arrangement to collapse rent-seeking tendencies.
- The Treasury must pursue policies that create demand and promote the use of the ZiG, such as demanding settlement of bulk of corporates' Quarterly Payment Dates (QPDs) in local currency and providing government services in ZiG.
- The Treasury must ensure sustainable government spending in 2025 to avoid excessive fiscal deficits, worsening the public debt crisis, and inevitably sustaining money printing pressure, which would destabilize the ZiG and be highly inflationary.
- Treasury must abandon command formalization strategies and incentivize the informal sector to formalize its operations. This can be done by simplifying the tax registration process, automating tax payments, improving taxpayer service, providing low-interest soft loans, and enforcing progressive tax regimes.
- Given the ravaging impacts of El-Nino-induced drought, high inflation, and ongoing company closures and downsizing, the Treasury must trigger legislative emergency spending provisions to reprioritize 2025 expenditures toward social sectors to support vulnerable groups.
- ZIMRA must be equipped with state-of-the-art technologies and regularly undertake capacity-building initiatives to enforce tax laws, ensure tax compliance, and increase government revenue collection.
- The Ministry of Industry and Commerce must prioritize investments that improve business infrastructure, thus giving informal traders market access. For instance, by constructing enough vending markets. There is also a need to refine the industrial policy to promote the development of business linkages in the economy.
- Overreliance on borrowing must be reduced through domestic resource mobilization (DRM) strategies such as leveraging technological advancements, prudent public financial management, sound natural resource governance, economic diversification, and promoting value addition and beneficiation, particularly in agriculture and mining.
- The government must ensure the existence of a clear legal framework for businesses, which will help avoid criminalizing informal trading activities.